

Although there are few general themes unifying the volume, the authors would probably collectively agree that the PRC leadership has changed its external behavior significantly. Marxism-Leninism is no longer the single dominant paradigm in Chinese foreign policy thinking. While current policies are more compatible with liberal international norms, several contributors note that China's leaders continue to firmly uphold some traditional values in foreign policy making. Most notably, these include sovereignty (which this reviewer would *not* regard as a traditional value), territorial integrity, and national unification. The interplay of indigenous sources and Western concepts can, to a large extent, explain Chinese foreign policy behavior. All authors display impressive erudition, interspersing comments on ancient texts with the language of contemporary international relations theory. This makes for a book which, although not easy to read, provides important insights into the thinking of young mainland scholars.

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Inflation and Investment Controls in China: The Political Economy of Central-Local Relations During the Reform Era. By YASHENG HUANG. New York: Cambridge University Press, 1999. 391 pages. Hardback: US\$65.00, ISBN: 0-521-55483-7; Paperback: US\$23.00, ISBN: 0-521-66573-6.

Inflation and Investment Controls in China is an important contribution to the study on central-local relations in China. Yasheng Huang (黃亞生) was among the first scholars to argue that the central government in China has *increased* its control over the provinces during the reform era. What really makes *Inflation and Investment Controls in China* stand out in the literature on China's central-local relations, however, is the way Huang presents his case. With a dataset covering the personnel and economic data

of twenty-nine provincial units across seventeen years (1976-1992) and the use of sophisticated statistical tools to minimize the probability of making erroneous inferences, this book sets a high standard for the empirical study of Chinese political economy. Since the review of the statistical merits of *Inflation and Investment Controls in China* requires a much longer article, this review focuses on the theoretical framework and research agenda issues raised in this book.

Huang never denies that local officials have become powerful economic actors in the process of reform. As a matter of fact, five of the first seven chapters give a comprehensive account of the roles local governments play in China's economic institutions as well as their investment behavior. Chapter seven adapts the positive theory of agency from institutional economics to analyze the various shirking, adverse selection, and moral hazard conduct of local governments by examining their investment in fixed assets under different policy regimes. Other observers may take rampant local deviant investment behavior as signs of growing centrifugal force in China; Huang's research, however, investigates further. He asks: Is there any systematic difference among provinces in their deviant investment behavior? Chapter eight answers this question by examining the relationship between the bureaucratic characteristics of provincial leadership and their investment behavior. He finds that during policy periods of austerity, when there was no doubt about the center's determination to reduce the growth of local investment, two kinds of provinces tended to comply most closely with central policy: provinces whose top officials' career patterns resided more heavily within the central government, and provinces with newly-appointed outsiders at the leadership level in the previous year. Huang also uses alternative measures to confirm his findings: while local deviant investment behavior is a natural product of economic decentralization, constant rotation of provincial officials by the center has proved to be an effective mechanism to rein in local investment.

What leads Huang to look into the effect of bureaucratic hierarchy on local investment behavior? The answer probably lies in his definition of local interests. Prior to the publication of *Inflation and Investment Controls in China*, scholars who argued that the center has lost its policy leverage

over the provinces usually emphasized the "dual personality" of local governments as both tax collector and taxpayer and the fact that local governments often conceal revenue sources from the center as evidence suggesting the taxpayer's role usually won out. Scholars who suggested that provincial and central governments might create a win-win situation through cooperation also treated provincial officials as representatives of local interests only. Yasheng Huang defines local officials as political brokers within a bureaucratic hierarchy. According to Huang, provincial officials have to satisfy the demands from two constituencies: the central policy line and local interests (p. 10). While provincial officials are responsible for local development and while keeping more revenue within the locality is vital for economic development, these local officials will also be held personally responsible for excessive investment during periods when the center is determined to control inflationary pressures. Since the center's attitude toward local investment growth may vary depending on the macroeconomic situation, the much-reported increase of deviant local investment behavior may be the result of lenient central attitude rather than a shift in the balance of power between the center and the provinces. Thus, the real test of provincial officials' priorities comes when these officials are forced to choose between toeing central policy lines and advocating local interests.

Compared with the above-mentioned depictions of local interests, the advantage of a hierarchically defined local interest is obvious: this conception takes into account the center's changing policy regimes in evaluating central-local relations. As Huang's data have shown, moreover, the concern of provincial officials over their own career patterns usually overshadows their role as the promoter of local interests when a choice must be made between the two. As for those provincial officials who do not comply, the center can always appoint a new official to curtail administrative and economic localism. In the language of the principal-agent analysis, the appointment of new provincial officials is the occasion when the center exercises its power as the principal. The appointment of centralist Li Changchun (李長春) as secretary of the CCP Guangdong Provincial Committee (中共廣東省委書記) in March 1998 and the subsequent

forced bankruptcy of the Guangdong International Trust and Investment Corporation (GITIC 廣東國際信託投資公司) is a case in point. Overall, Huang's hierarchical definition of local interests presents a more dynamic picture of central-local interactions.

Despite this book's contributions, the development of the Chinese economy after 1992 calls into question some of the premises of *Inflation and Investment Controls in China*, thereby calling for further research. First, the study of central-local relations is restricted to the confines of the Chinese bureaucracy. If our research concern is about "governance" in the transition from socialist economy, a single-minded focus on central-local relations cannot shed light on the growing importance of the market. For instance, the hierarchical imperative works only under two conditions: when officials hold their future career as their top priority and when the center is able to monitor shirking behavior in a timely manner. If officials can easily translate their administrative authority into material benefits with little chance of being exposed, sooner or later personal material interests will replace career development as the top priority for officials, which may ultimately lead to what Steven L. Solnick has called the "breakdown of hierarchy." Secondly, although China has survived the 1997-99 Asian financial crisis unscathed, the overwhelming burden of nonperforming loans in China's state banking system has caught the attention of China watchers. Since the state banking system is the backbone of the central government's macroeconomic policy leverage, relations between the financial health of state banks and the center's macroeconomic steering capacity remain to be seen. These comments are not a critique of *Inflation and Investment Controls in China*, but rather constitute a research agenda inspired by the insights of this book.

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